Lesson 9: Government, Government Legislations, and the Labor Market

Economics of Labor and Human Resources | May 14, 2026

Agenda

- Government Employee
- Wage Determination
- Public Spending
- Labor Market and Taxes
- R.A. 10963 (Train Law)
- Labor Productivity
- Labor's Share of National Income
- Employment Rate
- Employer Termination
- Procedural Due Process
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Government Employee

Government employee – employee when used with reference to a person in the public service, includes any person in the service of the government or any of its agencies, divisions, subdivisions or instrumentalities.

The government supplies a very particular type of goods and services. Elasticity of demand for government services is likely to be low; a relatively low wage elasticity of labor demand.

1. Supplies – it provides public goods such as national defense, public order, judiciary, and regulation. These services are usually monopolized by the government because the private sector cannot efficiently provide them.
2. Objective – while the private sector maximizes profit, government objective is to maximize social welfare. Politicians may also aim to increase chances of reelection and control bureaucracy.
3. Wage setting – heavily affected by legislation where the laws enacted by the government can indirectly influence the private labor market.

Unlike the private sector, government wages are not mainly determined by market demand and supply, but through laws and policies (e.g., Salary Standardization Law in the Philippines).

The government is one of the largest employers in many developed and emerging economies.

In the Philippines, the status, salaries, benefits, and conduct of government employees are governed by laws such as:

- Civil Service Law
- Salary Standardization Law
- Implementing Rules and Regulations
- Administrative Code of the Philippines

Wage Determination

Wage determination – the government is a different type of employer, but also because the union structure and the institutional environment in which wage setting occurs do differ from those of the private sector.

Salary Standardization Law (SSL) – R.A. No. 11466, was enacted by the national government to adjust the salaries of government employees. This adjustment was carried out in four stages, spanning from January 1, 2020, to January 1, 2023.
– It provides standardized and rationalized compensation for government employees.
– Aims to make public sector salaries more competitive, attract employees to public service, and motivate them to stay in the government

Before SSL, government salaries were relatively low. This makes employees transfer to the private sector.

Coverage of SSL

- National Government Agencies (e.g., DepEd, DOLE)
- State Universities and Colleges (e.g., PUP Professors)
- Government-Owned Corporations (e.g., SSS, Pag-IBIG, GSIS)
- Local Government Units (e.g., city hall employees)

SSL 6

SSL 6 provides higher compensation for government employees. It is implemented through Executive Order No. 64, s. 2024, issued by President Marcos Jr.

Covered salary increases from 2024–2027.

- 2024 = 1st tranche
- 2025 = 2nd tranche
- 2026 = 3rd tranche
- 2027 = 4th tranche

Public Spending

Public spending on labor market programs includes public employment services (PES), training, hiring subsidies and direct job creations in the public sector, as well as unemployment benefits. It includes placement and related services, benefit administration and other expenditure.

Training includes institutional, workplace and alternate/integrated training, as well as special support for apprenticeship. Employment incentives include recruitment incentives, employment maintenance incentives, and job rotation and job sharing.

Public employment can help reduce unemployment in the short run by directly creating jobs. However, it may negatively affect the private sector in the long run.

Government Job Creation

The government can create public sector jobs to directly reduce unemployment. However, studies suggest that higher public employment does not always improve the labor market in the long run.

More public jobs can attract workers away from the private sector, especially if public sector wages/benefits are better.

This makes the private sector absorb the shock, causing higher cost of production that affects prices of goods & services and their profit.

Unemployment

The government can also help unemployed workers through unemployment benefits. These benefits are usually temporary and can only be received for a specific period.

> Example: South Korea provides a Job Seeking Allowance for involuntarily terminated workers, which helps cover living expenses for 180 days while looking for work.
>
> In the Philippines, unemployment benefits are available through SSS, but workers must meet contribution and eligibility requirements.

Public employment affects private employment through the following channels:

1. increase in public employment in an environment of higher public sector

rents increases expected returns on looking for a job in the public sector which attracts workers into the public sector at the cost of the private sector and increases wage pressure and decreases private employment.

2. increase in public employment where public sector production is substitutable to the private sector production puts competitive pressure on the private sector and the relative price of goods produced by the private sector decreases, negatively influencing the wages and participation rate in the private sector.

Better public sector jobs attract workers away from the private sector making private firms increase wages to compete.

Private Firms:

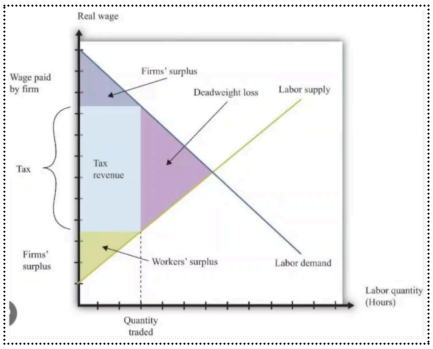
Labor Cost ↑
Profit ↓
Employment ↓

Labor Market and Taxes

Tax is enforced contribution to support government expenses and public services. It is unavoidable because they fund public goods and services.

Income tax is automatically deducted from salaries of both government and private employees.

Value-Added Tax (VAT) in indirect tax. Legally, producers remit VAT to BIR. But actual burden is passed to consumers through higher prices, and producer acts only as a remitting agent.



Income tax creates a gap between the wage paid by employer and the wage received by worker.

Income tax makes workers receive lower take-home pay than equilibrium wage, and firms pay higher labor cost because of taxes. This creates deadweight loss, creating loss of total economic efficiency and inefficiency in society.

Example: Employer pays ₱1000/day

With 20% income tax, the worker only receives ₱800 take-home pay.

If labor demand is inelastic, firms absorb more of the tax burden. If labor supply is inelastic, workers absorb more of the tax burden.

R.A. 10963 Tax Reform For Acceleration and Inclusion (TRAIN Law)

Tax Reform for Acceleration and Inclusion (TRAIN) Law is enacted in 2017 and took effect in 2018. From time-to-time, BIR can update or amend tax rates through issuances.

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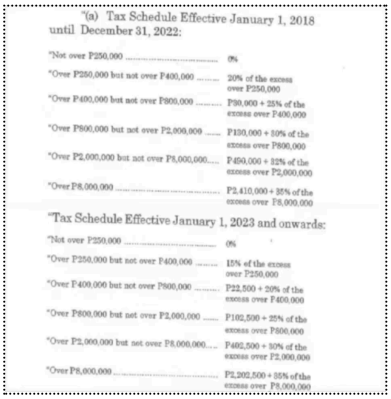


"(a) Tax Schedule Effective January 1, 2018 until December 31, 2022:

"Not over P250,000	0%
"Over P250,000 but not over P400,000	20% of the excess over P250,000
"Over P400,000 but not over P800,000	P30,000 + 25% of the excess over P400,000
"Over P800,000 but not over P2,000,000	P130,000 + 30% of the excess over P800,000
"Over P2,000,000 but not over P8,000,000	P490,000 + 32% of the excess over P2,000,000
"Over P8,000,000	P2,410,000 + 35% of the excess over P8,000,000

"Tax Schedule Effective January 1, 2023 and onwards:

"Not over P250,000	0%
"Over P250,000 but not over P400,000	15% of the excess over P250,000
"Over P400,000 but not over P800,000	P22,500 + 20% of the excess over P400,000
"Over P800,000 but not over P2,000,000	P102,500 + 25% of the excess over P800,000
"Over P2,000,000 but not over P8,000,000	P402,500 + 30% of the excess over P2,000,000
"Over P8,000,000	P1,202,500 + 35% of the excess over P8,000,000

Individuals earning ₱250,000 and below annually are exempt from income tax. Income exceeding ₱250,000 is subject to tax depending on the applicable tax rate.

There are proposals in Congress to increase the tax-exempt threshold from ₱250,000 to ₱400,000 since many workers earn low incomes. This can help reduce tax burden on employees and increase take-home pay.

Labor Productivity

Labor productivity has been defined as the value that each employed person creates per unit of their input.

$$\text{Labor productivity} = \frac{GDP\ at\ constant\ prices}{Number\ of\ employed\ persons}$$

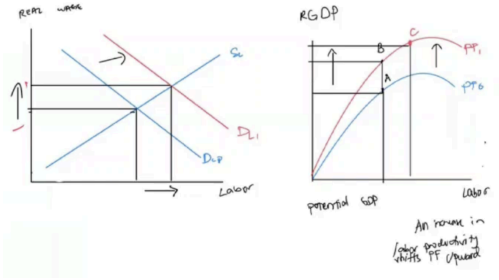
Workers' productivity can be determined by different factors:

- Human capital is the accumulated knowledge from education and experience, skills, and expertise that the average worker in an economy possesses - the higher the average level of education in an economy, the higher the accumulated human capital and labor productivity.
- Technological change is a combination of invention an advancement in knowledge-and innovation, which is putting that advance to use in a new product or service.
- Economies of scale, on the other hand, is the cost advantages that industries obtain due to size.

Labor productivity PROVIdes general info on efficiency and quality of human capital. Kapag kasi efficient individual, we assume it is productive and can contribute to economy.

Technological change - There are studies saying if tech ginagamit in aid in production magkakaron productivity pero sa paradox of technology kasi, ang primary objective ng paggamit ng tech is to aid human in production pero now pinapalitan ng tech ang human. Sa study kasi nakita na if tech is being used to aid production, may productivity but may risk ang improvement ng tech kapag pinapalitan na ng tech and individuals

Economies of scale - kapag emron na to, u are alr efficient in producing goods and services kasi may increase of production while your cost of producing naman ay mababa kaya ang firms one of objectives ay to attain this.



If individual is productive, it will lead to higher economic growth kasi if may increasea in productivity, may increase in demand for labor provided that supply is constant may increase in real wage and increase in productivity leads to higher real gross domestic product. Therefore, increase in labor productivity leads to higher real gross domestic product os simply increase of economic growth

Labor's Share of National Income

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Labor's share of national Income is the amount of GDP paid out in wages, salaries, and benefits.

$$\text{Labor share of Income} = \frac{\text{All wages paid to all Labor}}{\text{Output}}$$

According to a study from Asian Development Bank (ADB), labor share of national income has declined in recent decades. This shows that workers are not receiving a fair share of the income they produce, causing sociopolitical instability

Employment Rate

Employment rate is the proportion of employed persons to the total labor force.

Unemployed Persons are reported in the labor force as (1) without work; and (2) currently available for work; and (3) seeking work or not seeking work because of the belief that no work is available, or awaiting results of previous job application, or because of temporary illness or disability, bad weather or waiting for rehire or job recall

Types of Unemployment

- Frictional unemployment – unemployment while looking for a new job. This is considered natural and not harmful to the economy since it exists even in a fully employed economy.
  – Natural unemployment rate is around 4–6%.
- Seasonal unemployment – occurs when work depends on the season like farmers.
- Structural unemployment – caused by skill mismatch where worker's skills do not match available jobs. Government intervenes through offering TESDA training programs and skills development courses.
- Cyclical unemployment – this is caused by recession or depression and considered harmful to the economy.
  – Businesses here reduce hiring or lay off workers due to weak economy. It makes harder for government to intervene through job creation because the entire economy is affected.

Employer Termination

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Procedural Due Process

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Theory of Job Search

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